RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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April 18, 1984 **LETTER 885**

April 6, DJIA 1132.22; PTI 1664; A-D Ratio –19.37
April 13, DJIA 1150.13; PTI 1662; A-D Ratio –19.18

THE MARKET: On April 6 the D-J Industrial Average smashed through its February 22 low of 1134.21. On the same day the Transports confirmed by cracking below their own February 23 low of 494.02. Volume rose to 102 million shares, adding authority to the break. Again, on the same day the A-D ratio dropped below its low of January 1983.

Strangely, the major composite averages did not confirm. Neither the NYSE Composite (February low was 88.69) nor the Standard & Poor's 500 (February low was 154.29) broke below their February lows. Thus we have the exotic picture of an authoritative downside break by the two Dow Averages–yet the move was not confirmed by the broader averages.

What does it all mean? With non-confirmations in the big composite averages, the market "celebrated" with a 26 point rally (April 12) in the Dow. The move provided for "a spring rally," but that remains to be seen (see Late Notes).

What of the larger picture? In previous Letters I have discussed the value of the 50% Principle in gauging the long-term implications of any extended market move. The D-J Industrial Average started up in August 1982 from a low of 776.92. It recorded a high of 1287.20 on November 29, 1983. The halfway level (50% level) of the entire rise was 1032. On the basis of the 50% Principle, it will be extremely important to note whether this bear market terminates at 1032 or above. Or whether the bear can drive the Dow decisively below the 1032 level.

If the Dow can form a bottom above the 1032 level, this will be a very positive indication for the long term, and the implication will be that in due time the market will test the 1983 highs. Conversely, a smashing of the 1032 level by the Dow would be ominously bearish, implying that the Dow could test the level from which the entire advance began (that level, of course, is Dow 776).

In Letter 883 I outlined the five methods by which I gauge the primary trend of the market. The five methods were (1) Dow Theory, (2) Lowry's "Buying Power and Selling Pressure," (3) Trendex's "Very Long-Term Probability Index," (4) The Bank Credit Analyst's appraisal with particular reference to their debit/loan ratio, and (5) my Primary Trend Index.

To review these methods very briefly as to changes since Letter 883. (1) The Dow Theory (Letter 883) was bearish on the secondary trend of the market, but fuzzily bearish on the primary trend. At this point I feel that the primary trend, from the Dow Theory standpoint, is definitely down.

(2) The Lowry study is still longer-term bearish, although it did flash an over-sold condition in February.

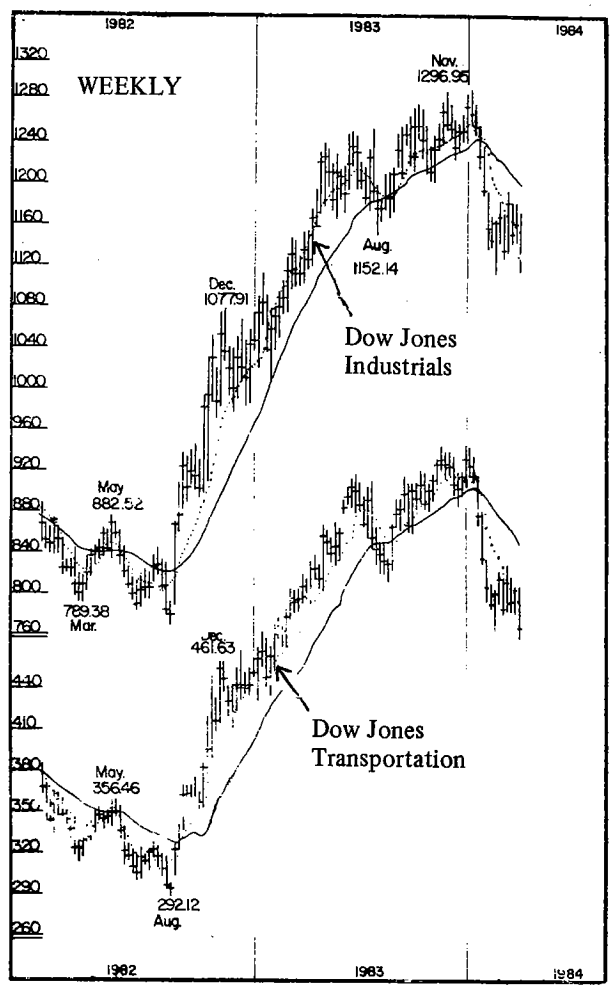
(3) The Trendex Long-Term Probability Index remains bearish.

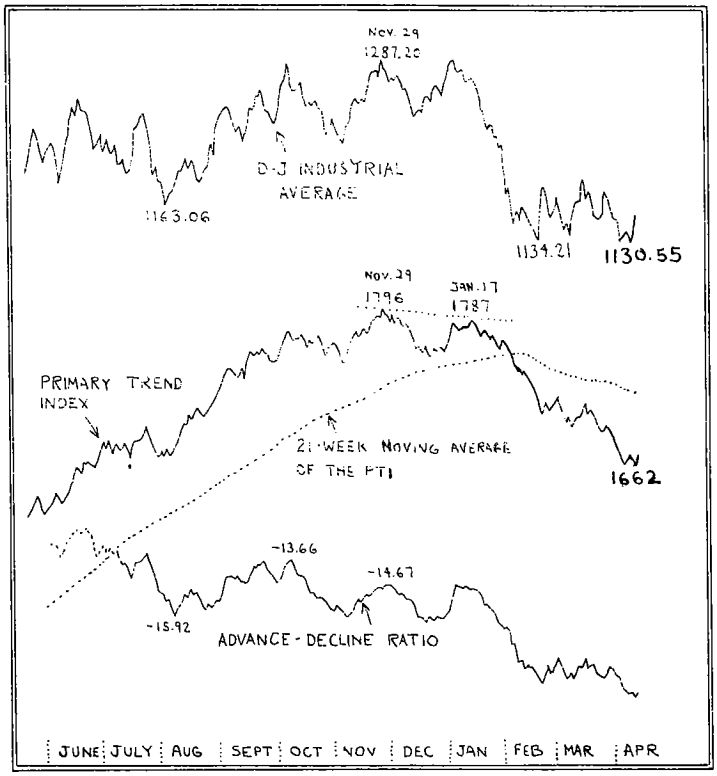
(4) The Bank Credit Analyst (April) states, "From a fundamental perspective, the deterioration in banking system data continues in the latest period." The debit/loan ratio (which usually precedes trends in corporate profits) is strongly down.

(5) My PTI is bearish, having formed a large top below 1796.

Conclusion: The stock market is still bearish on all my indicators and barometers.

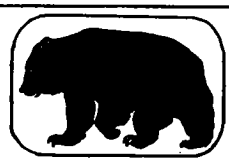
As seen on page 2 chart, the Dow, the PTI, and the A-D ratio are all in gear on the downside. The PTI is now 60 points below its 21-week moving average, the greatest span of the bear market so far. Therefore, it would not surprise me to see some rallying or at least backing-and-filling action in the PTI, as it uses up time and allows the 21-week MA to move down and close the span.





Turning to the point & figure chart of the PTI, note that the PTI has formed what could be a major head-and-shoulders top. A rally in the PTI at this time would simply build a right shoulder. If the PTI (following a rally) was then to turn down and break its current low, I could measure another slide in the PTI down to the 1540 area. This would take the PTI down to the general area of its 1981 peak.

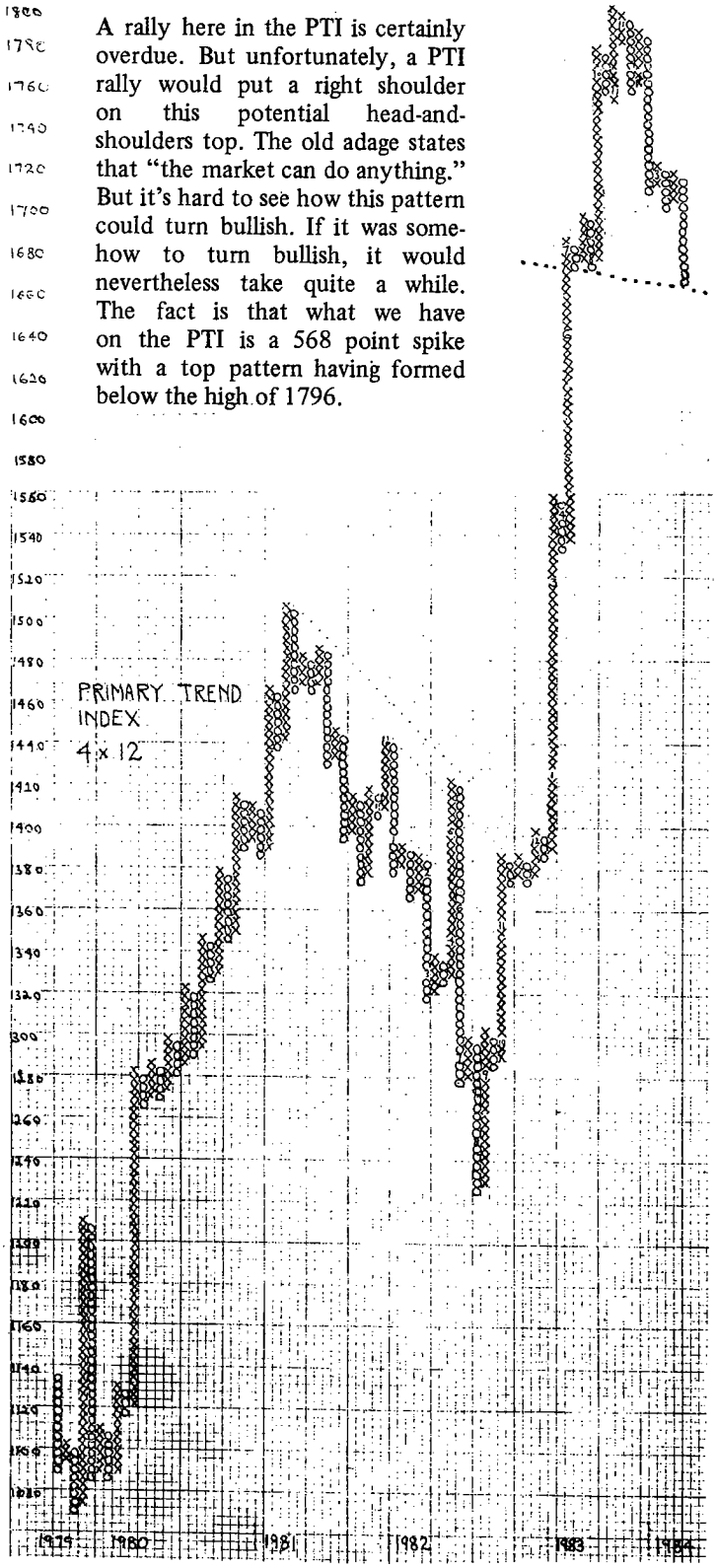
INVESTMENT POSITION: With the D-J Averages having broken important lows and the PTI in a "top" pattern, the bear is in the box. This means basically a defensive position with the bulk of assets in money market instruments. The bond market, down for twelve weeks running, should be ready to rally at least on a technical basis. The muni sector has been by far the strongest area in bonds. Gold positions should be held to a minimum. Gold is an expensive "hold" unless the metal is rising—which it is not.



WHERE WE'RE GOING: *Question:* Russell, what's your longest term view of where the US is going?

Answer: Unfortunately, my very long term view of the US and its economy is not a happy one. I base my view partly on the fact that the US has been borrowing from the future in massive amounts—to subsidize its current high standard of living.

The process (which we call running up deficits) has been going on for years, or really (on a giant scale) ever since World War II. The result in one area has been a collapse in the purchasing power of the dollar (see chart courtesy of The Money Advocate, 4180 W. B'way, Minneapolis MN 55422). However, this loss of purchasing power in the dollar, in my opinion, started to slow down around 1980 at which time I felt (and I wrote this repeatedly) that the forces of inflation and deflation were finally moving into equilibrium.



A rally here in the PTI is certainly overdue. But unfortunately, a PTI rally would put a right shoulder on this potential head-and-shoulders top. The old adage states that "the market can do anything." But it's hard to see how this pattern could turn bullish. If it was somehow to turn bullish, it would nevertheless take quite a while. The fact is that what we have on the PTI is a 568 point spike with a top pattern having formed below the high of 1796.

I believe this equilibrium was signaled by the crash in the price of gold. And I think it was also signaled by the smash in hard goods and collectibles of all kinds from stamps to coins, from art objects to farm land.

The fact is that for the past forty years Americans have been enjoying a very high standard of living. But a good part of that

high standard of living was based not on productivity or savings–but on borrowing from the future. This extravagance must ultimately reap its due. And the due will take the form of repayment. It will be repayment in *lowered standard of living in the US.* Because Americans have avoided the PAIN of reality for so long (and the reality is that you must work for what you get), my opinion is that we now face an extended period of reality.

Question: Russell, what do you mean by "reality?"

Answer: If a man escapes reality by lapsing into weeks and months or years of heroin dependency, he must eventually pay for that escape. The cost will be poor health, a long period of convalescence, the pain of withdrawal, and loss of self esteem. I believe the after-effects of four decades of inflation will be roughly the same.

The federal debt of the US is now around $1.5 trillion. Consumers probably owe another few trillion. The total US debts of all kinds and varieties have been estimated at near $7 trillion dollars. These debts can only be handled (and much of them will be reneged on) via inflation or deflation. The almost universal opinion is that the course the nation will take (as it has for many years) is inflation.

Personally, I think the nation is in for a big shock. People do not understand that the dollar is the world's reserve currency and that the US possesses massive capital markets. For instance, most people do not realize that the bond market is five times as large as the equity markets and that the mortgage markets are also huge. Any serious attempt to escape the debts via inflation will result in a catastrophic collapse in the debt markets. In fact, I feel that a move towards outright inflation would result in losses in the bond and mortgage markets that would be far larger than any new credits created in the money markets.

What has happened is that investors have now become very sophisticated, and they will dump long-term debt at the first sign of real inflation. Secondly, the banks have now seen the results of their giant credits to under-developed countries, and this belated recognition will slow creation of international credit. Furthermore, the public and institutions are becoming aware of the power of compound interest, and with today's great yield spread in favor of bonds over stocks, the US stock market will come under increasing competition from bonds. This too is deflationary.

Question: OK, Russell, I see what you're saying. So what's the ultimate result of it all?

Answer: My feeling is that we are moving into what I term, "The coming struggle for liquidity." I think we face a long period, maybe 15 or 20 years, in which the US faces (or is forced to face) reality. This reality will result in lowered standards of living as people and corporations and governments struggle to pay off debts and regain liquidity.

Question: Will there be bull and bear markets within this long period of debt liquidation?

Answer: Absolutely. As long as there are free markets there will be bull and bear swings. Furthermore, there will be major swings in the bond markets. But overall, there will be a move towards liquidation of debts, and this will cause a slowing down of the current world boom–and finally the boom will turn into depression.

Question: Russell, what do you mean, world boom? Isn't half of the world on the edge of starvation now?

Answer: I'm talking about world stock markets. In that area almost all the major stock markets of the world, from Japan to Britain, from Sweden to Mexico, are roaring skyward.

Question: You talk about a liquidation of debts. But look at the way we are extending debts. Three hundred million to Argentina, new spending programs, rising US budgets, consumer credit going almost wild!

Answer: In the early stages of liquidation there is an attempt to keep the whole debt structure from crumbling. That's what the exotic almost comical Argentine "bailout" was all about. Here we take four debtor nations, make them creditors of Argentina, and in the end back the whole thing with US credit. It's all just an attempt to hold off the inevitable. It's a structure held together with string. And even the string is becoming frayed. The fact is that if the international debt structure wasn't so tenuous, a ridiculous, rinky-dink plan like the Argentine bailout wouldn't even have been tried. They would have allowed Argentina to default in better times.

Question: What has given rise to this ballooning of US and world debt?

Answer: A number of things. (1) Stupidity and greed on the part of bankers. (2) A world wide rise in "People power," so that politicians and even dictators have moved to give the people what they want (of course, at the expense of huge borrowing). (3) The removal of gold from paper currency backing has been a major factor in the rise of credits and inflation. (4) Extraordinary confidence in paper currencies and particularly in the dollar has allowed for a huge expansion in credits. (5) Perhaps most significant of all, the US and the world have been on the "up" side of the cycle. During the depression of the 1930s, there was a massive liquidation of debts through collapsing business and through bankruptcies. In the '30s GNP in the US fell in half and everyone who could go broke did go broke. People went "without" for twelve years. World War II followed, and a further great hunger for goods and services built up. So the aftermath was a very extended period of rising confidence and rising desires. And finally came greed. Currently, the greed has gone out of control, as has the debt structure in the US and the world. Credits are stretched on credits, and everyone talks about the "coming new round of inflation."

But few people understand the deflationary power of compounding debt and high interest rates. These are the two factors that will bring down the boom. In my opinion, we reached the point of no-return on debt around 1980. Today, the Fed is receiving the credit for "halting inflation." But the real hero is the market itself. The bond market (which is part of the debt structure) is on its way to becoming king. The bond market will run the nation before the 1980s are over. The barometer of the bond market is interest rates. Today interest rates are "the talk of the town."

Question: Can't the government control interest rates?

Answer: Not any more they can't. The reason is the new sophistication of the people. The credit markets are now so huge that they dwarf everything else. Large investment firms like Soloman Bros. and large banks like Morgan trade billions of dollars worth of money market instruments every day. The

money markets involve untold trillions of dollars, and much of it (like the Eurodollar market) is out of reach of even the Fed. No, interest rates are a function of supply and demand. And as the demand for credits and credits to repay credits grows, the long-term trend of interest rates rises.

At today's yield spreads, a money manager has a hard time making a case for stocks. As I've said so many times recently, at current yields a portfolio of Treasury bonds (forgetting taxes) doubles in six years. A portfolio of the thirty Dow stocks doubles in fifteen years (at 4.8% current yield). So the Dow has to grow like mad to make up for the difference in the yield spread. The doubling of the Treasuries in six years is guaranteed by the laws of mathematics. The doubling of a Dow investment in 15 years is possible if the Dow can retain its dividends. But it would take a boom to bring the Dow up to the returns offered by T-bonds, a boom that would have to more than double Dow dividends!

That's what the debt structure and high interest rates have done for this nation–and the stock investor. To me it spells a brick wall in front of the stock market. And the beginning of a long, long period of trouble as the debts are handled, manipulated, rescheduled, restructured and reneged on.

Question: The Chinese say that "out of every disaster there arises an opportunity." I don't see any great opportunity coming out of the scenario you paint.

Answer: Of course, there's an opportunity! Money instruments and real interest rates are currently near their highest level in history. The great opportunity now is in buying very high quality bonds and shares with accompanying high yields.

There is a long list of high quality investment merchandise available to the person who appreciates great values. In the taxable area there are Government bonds, high-grade corporate bonds, high-grade preferred stocks. In the tax-free area there are all kinds of municipal bonds with quality municipals (AA-rated) providing near 10% tax free. It's a picnic for the investor who knows the compounding fortune-making opportunities in high-grade, high-yielding securities. Securities yielding 10% and better are today's fabulous values. The key to buying these values are (1) safety, (2) liquidity, (3) diversification.

Question: The history of the bond market over the past half century is one of attrition. Don't you expect that to continue?

Answer: I expect the interest rate picture to climax within the next 15 months. I feel that the debt situation is so bad that drastic action will have to be taken. At any rate, I feel that a major high in interest rates will come near or a few months after the Presidential election. Thus, I feel that bonds bought on a scale basis over the next 15 months will represent great values. As far as maturities, one does not have to go out too far. Ten years is probably enough, although I personally may go out to the year 2000. From this point on my opinion is that if bonds can't enter a primary bull market stocks certainly can't enter a primary bull market. The yield spread in favor of bonds is now too great to justify purchase of stocks.

Question: What about the US and Russia?

Answer: There is absolutely no doubt in my mind that Russia wants to dominate the world. To that end, she has built a massive military base. The Russian military might well be the power behind continual Communist expansion.

In order to build this immense military structure, Russia has sacrificed its domestic economy. In Russia consumer lines are part of the landscape. Russian civilians have the money, but there is nothing to buy. Russian soldiers are paid $8 a month while US soldiers are paid salaries comparable to civilians.

The US has opted for lots of butter and guns. But from here on the equation is simple. If we are to keep up with Russia as a great power, we will have to look more like Russia. This means much MORE money into the military and much LESS money into the civilian economy. If we are willing to do that the US may remain as one of the world's two great powers.

	USSR/Warsaw Pact	U.S./NATO
Fighter-bombers	950	675
Intercontinental ballistic missiles	150	0
Surface-to-air missiles	55,000	6,000
Multiple rocket launchers	800	95
Submarines	10	8
Tanks	3,250	1,650
Field artillery	3,200	490

Source: U.S. Department of Defense — USA TODAY

If we are not willing to sacrifice, then I see us sinking to the level of a second rate power. That, unfortunately, will mean loss of export markets to Russia, loss of prestige, and probably a long slide in the value of the dollar.

Europe, now very weak and getting weaker, is watching the struggle carefully. Europe will GO WITH THE WINNER. My bet is that the US and Russia will never engage in nuclear war or perhaps in any war. Yet the unwillingness to sacrifice, the refusal to face reality, the inertia (dare I call it mass stupidity) of the American people may result in America's downfall as a great nation.

NOTES & QUOTES: From a talk last week with Melvyn Lippman, editor and owner of *US Organization Chart·Service* and other military and industrial publications, La Jolla, CA. Lippman told me that the US is now "locked" into a program to develop an anti-ballistic missile system (ABM) based on high energy (including laser) weapons. Cost of the fantastic new program–$500 million to $1 trillion over the next ten years. The program will be huge, and the space program will constitute (in cost and scope) a new service branch comparable to the army, navy, or air force. They are going ahead with it, says Lippman, the debate is over.

If successful, the US and Russia will have eliminated the chance for nuclear attack. You can't nuke a nation without a delivery system, and the ABM will eliminate (destroy) delivery systems. The PLUS in the whole thing is that the chance of nuclear war will be practically over. Only the US and Russia can afford to develop the ABM system. The result will be a world wide nuclear stalemate, since neither the US nor Russia will be able to nuke each other, and no other nation will have the ABM. The MINUS, of course, will be the massive costs of the system. How will we finance the system? Lord knows! (more next Letter).

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Here's an interesting clip from the April 10 NY Times:

> ***Tuesday:*** **Mr. Reagan had informed Congress that a treaty banning anti-satellite weapons in space would not be "in the overall interest of the United States" because, he said, it could not be adequately verified — a statement directly contradicted by an authoritative report from the nongovernmental Union of Concerned Scientists.**

Translation: the Russians are deep in an ABM program, and the US ABM program is now in place. So as far as a ban on the ABM, forget it.

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Interest Rates: There's nothing tougher than predicting interest rates. It's so tough, in fact, that I don't try. If you are going to buy bonds and "lock in" some of those high interest rates, I suggest you do it via a 15 month program buying a fixed amount every three months. Here are what some experts predict for the prime rate on March 31, 1985 (note the huge disparities): Lawrence Chimerine of Chase Econometrics: 13% or higher. David Jones of Aubrey Lanston 10 to 10.5%. John Rutledge of Claremont Economics 10%. Alan Sinai of Lehman Bros. 13 to 14%. Robert Sinche of Bear, Stearns 13 to 14%. With these guys at odds, who are you and I to play genius?

* *

The West is rising. Of the 10 biggest population cities in the US, 5 are now in the West. The line-up is (1) NYC, (2) LA, (3) Chicago, (4) Houston, (5) Philly, (6) Detroit, (7) Dallas, (8) San Diego, (9) Phoenix, (10) San Antonio. The first 6 have populations over 1 million with NYC now at 7.086 million.

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Where's the money? So far, it's in real estate. How can you tell? Nearly half the sports teams in the US are owned by people who made it in real estate. Of the 28 NFL football teams, 8 are owned by RE people. In the USFL, 14 of the 18 teams are owned by RE people. In NBA basketball, 13 of 23 teams are RE. In major league baseball, 7 of 26 teams are RE. In national hockey, it's 9 of 21 teams. Will this continue? I'm doubtful. Interesting fact, the price of an average single family dwelling dropped 10% last year.

Speaking of sports, this year the NFL Dallas Cowboys were sold as were the Denver Broncos (both for over $60 million). San Diego's Chargers are now for sale. Why? Blame it on the new USFL and the competition which produced skyhigh salaries. In *Sports* magazine (May) an article talks sarcastically about another effort, the "Interplanetary Football League." C'mon fellas, gimme a break (could it happen?).

THINGS TO COME: (1) The space effort (defense) is slated to be "another army." Let me put it another way, the US has an army, a navy, an air force, a marine corps. Now add the new space agency.It's going to be so big, so expensive, that it will literally be a new branch of the armed services. And with it goes the need for new money–mountains of it.

(2) If a Democrat wins the election (unlikely at this point) he will have the usual six-months "honeymoon" (with Congress behind the President) to get the real work done. If Reagan is re-elected (probable) he will be a "lame duck" President, and he's going to get the dirty work done. The dirty work will mean slicing the budget deficit via higher taxes and cuts in spending.

(3) Tax shelters are going to be hit hard, very hard, in the Governments scramble to gather in more greenbacks. I just read through a list of twenty areas for potential cut backs in tax shelter treatment. These proposals hit everything from real estate depreciation to raising the penalty for abusive tax shelters to treating interest free loans among family members as gifts (and therefore taxable).

(4) The US balance-of-payments is now developing into an ocean of red ink.

I expect the US to erect barriers against certain foreign merchandise, and I would not rule out new tax rules or barriers for US factories producing goods overseas. At this point, it's as if anything and everything we buy has a "made in Hong Kong" or "made in Italy" or "made somewhere else" label on it. US production appears to be mainly new lawyers, new taxes and more corruption.

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HISTORY: On April 8 CBS presented its miniseries, "George Washington." The show was interesting, and I have always felt that Washington (whose early ambition was to be an officer in the British army) has been vastly underrated for greatness. Here is a man (a wealthy Virginia landowner) who was willing to risk everything. He was a rebel (actually a traitor to the British). He led a rag-tag impecunious army against the trained forces of a great power, and he almost single-handedly held his army together and gained victory against overwhelming odds.

Yet probably not one in ten thousand Americans know the real story of the brave Continental army and the utterly disgraceful treatment it received from what should have been a grateful nation. Carl F. Bessent, writing in the SAR (Sons of the American Revolution) Magazine (Fall, '83) tells the story, and it's a shocker. Here are excerpts:

General Washington assembled his troops in front of the Hasbrouck House in Newburgh at noon on April 19th and in a simple ceremony issued a formal announcement on the "cessation of hostilities between Great Britain and the United States." The soldiers gave three loud "huzzas" and sang the anthem "Independence" accompanied by the music unit. It was on the eighth anniversary of the Battle of the Lexington Green.

The penniless Continental Congress owed over $6-million to the Army. Washington felt very strongly that each soldier should be given assurance that he would be paid before he was discharged. He appealed to each of the individual states to provide the funds to pay the accounts. The only resultant action was Robert Morris, harassed Superintendent of Finance, printed promissory notes for three months payable to the soldier six months after the final treaty. On May 26th Congress decided to furlough the troops, allowing the individual soldier to keep his musket. Many soldiers took advantage of the furlough and left for home. Discontentment continued among the troops after this action. There was a mutiny of 200 newly recruited Pennsylvania militia soldiers who marched on the State House in Philadelphia. It was June 21st that the unruly band insulted and threatened the Congress. General Washington was outraged and ordered General Howe to proceed with 1,500 Continental veterans to Philadelphia to quell the rebellion. When the mutineers learned of the movement of the troops, they disbanded and there was no bloodshed. The Congress fled Philadelphia and on June 30th reassembled as the Eighth Continental Congress in the safe environs of Princeton. On October 18th Congress issued a proclamation discharging all previously furloughed troops except a small security force.

Congress was still in session when information came on October 30th that a final definitive peace treaty had been signed on September 3rd in Paris and peace was a reality at long last.

At West Point on November 2nd General Washington issued his Farewell Orders to his faithful Continental Army, discharging all troops enlisted for the duration of the War: "Men who have so bravely defended their country . . ." The next day General Washington received instructions from Congress to disband the remaining troops. Most were sent home without pay or any official thanks from Congress for eight years of hard, vigorous military service. Many soldiers sold their discharge papers, at a fraction of the assured worth, just to have money to travel back home. Rarely has a victorious army experienced such ingratitude; there was no reward for Washington's Army winning America's Independence.

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Tale of Two States: NY State borrowed $4.3 billion last week to finance its $4.3 billion deficit. New Yorkers will pay $2 billion in annual interest. California is a different story. It has a conservative Governor and a state law that mandates a balanced budget. Over the next year California will pay out $600 million to cover its AA-rated general obligation bonds. That's about 1.5% of the California state budget, compared to the 10% of the budget that interest costs New Yorkers. One of the prime desires of the California administration is to move the AA bond rating up to the former AAA rating.

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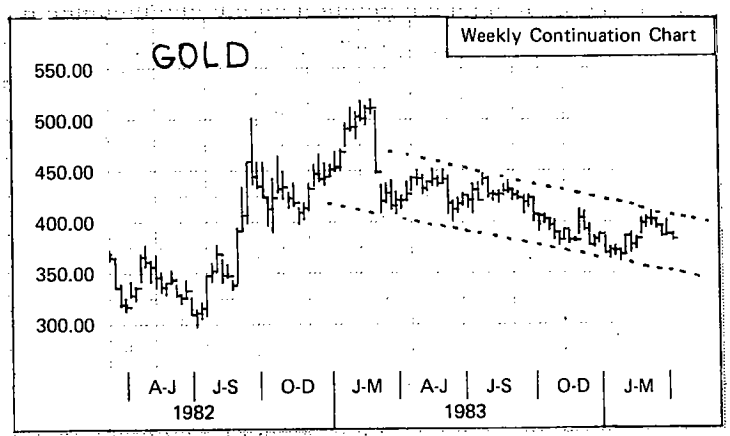
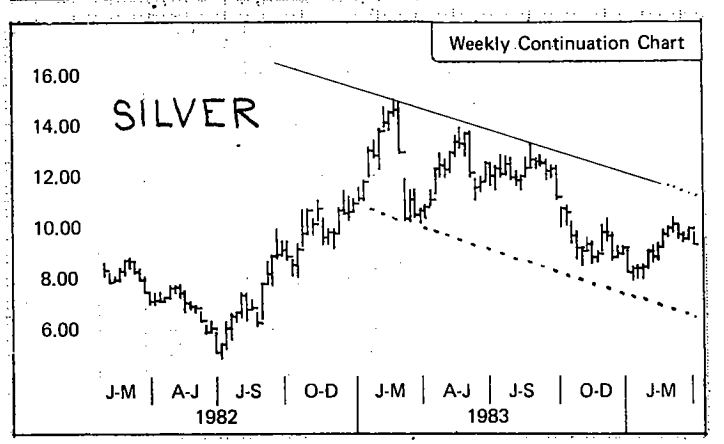
The new Investor's Daily newspaper is finally out (available, I understand, in the West and the East now, but all over in due time although you can get it through the mail at PO Box 25970 Los Angeles CA 90025). The paper has excellent charts and a lot of data, but at $.35 a day I don't know how well they can do against the Wall Street Journal. It will take a hard core of investors, in my opinion, to carry this paper, and it will be interesting to see whether the new paper can make it. Personally, I have my doubts, even though I like the paper.

Incidentally, Gannett's USA Today (a national paper that I like) cost Gannett $108 million in start-up expenses and losses last year.

As most readers know, I am an inveterate magazine nut. I read so many magazines the trashmen complain about dragging them away. One of the best and most interesting is Andy Warhol's Interview, 19 East 32nd St., NYC 10016 ($20 per year.). Interview is beautiful, it's exotically shaped, and I like most of the articles which are actually interviews with celebs by (usually) other celebs. Try it–I think you'll like it.





GOLD, SILVER: With the dollar still attractive because of fat interest rates and the yen attractive because of Japan's superb productivity, is it possible that this year's "gold" will simply be dollars and yen (there is even speculation that the powerful yen will end up as a reserve currency)?

The weekly chart of gold (courtesy of Dunn & Hargitt) shows the metal breaking sharply in the first quarter of 1983, and sliding down ever since. Which way is gold going? There's no guessing needed–gold is going down until it breaks out of its bearish descending channel. It would take a price of 408 to turn gold bullish. Until that happens, dollars and yen would seem to be the preferred place for assets.

Precious metal fans have been promising fat silver prices for many months now, and I don't know how many studies have passed my desk showing that a critical world shortage of silver is just over the horizon. Nevertheless, the silver story is about the same as the gold story–a declining channel with silver holding stubbornly (and bearishly) within that channel.

The bottom line, unfortunately, is that not only have gold and silver holders been losing money in a world filled with crises and four-star alarms, but they have been losing what could have been 8-9% in T-bill returns in the much-hated dollar.

You know, speaking of the much-inflated and much-hated dollar, I can't help thinking of something that my old buddy, Harry Schultz, said to me years ago. It went something like this; "Don't disparage the dollar. We work for it, we live on it, we save with it." I've always felt the same way, and I'm willing to admit that it may be just emotional. I don't know about every other place in the nation, but here in San Diego the dollar still buys you a darn good meal. I can go to Bully's on La Jolla Boulevard and get the famous Bullyburger dinner, a huge hamburger on a French roll, salad, bread, big baked potato, and all for $3.95. I can drive to the Soup Express where the finest salad bar in the nation offers you all you can eat in a bewildering assortment of salads and fruits plus muffins and strawberry shortcake, and all for $5.25 (less if you are over 55). There, mull that over.

My first job was back in 1941 working for the George Button Co. in Harlem loading trucks five days a week plus half a day Saturday–for $18.75, and that was a union job! I could get a full spaghetti dinner on Broadway then for $.25. I make more money today, and I pay more for my chow, but I still like dollars. My biggest problem is that the Government spends more than it makes, and it employs thousands of people who occupy their time figuring how they can take those dollars away from me.

NEXT MAILING: May 2

LATE NOTES;

The week ending Friday the 13th saw upside action in almost all the averages except the D-J Utility Average and the D-J 20 Bond Average. Thus, the market corrected (upwards) but obviously Wall Street was still skeptical regarding lower interest rates. My PTI ended the week at its 1984 low of 1662. A persistent decline in the PTI (as veteran subscribers know) will always pull the market down.

As far as the economy is concerned, I'm of the opinion that the markets are telling us that business will contract during the second half of 1984. That's supposed to be good news for interest rates. But with debt persistently rising and business ebbing rates may not behave as they did in the old days–when a decline in business virtually guaranteed lower rates.